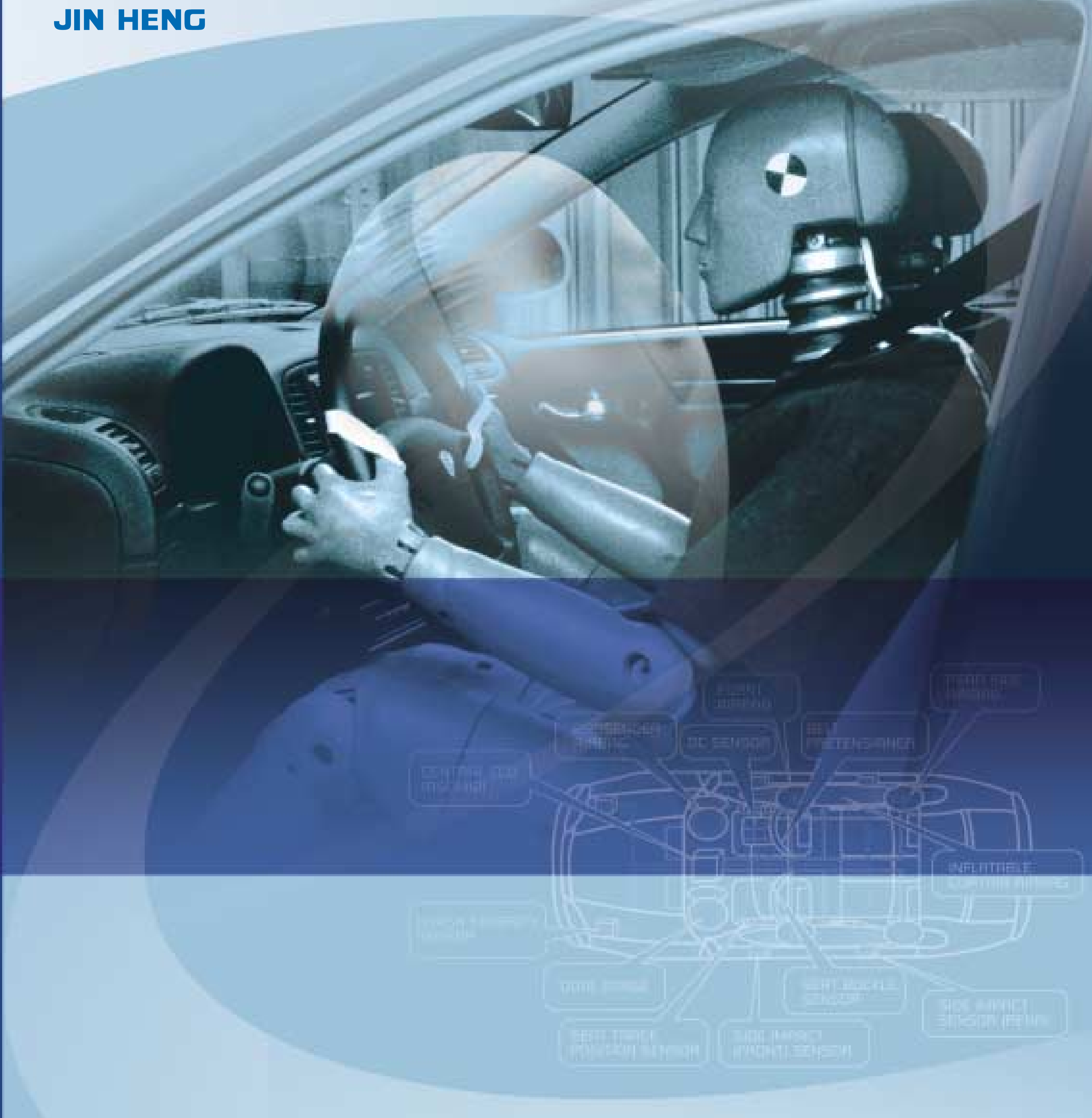
JINHENG AUTOMOTIVE SAFETY TECHNOLOGY HOLDINGS LIMITED

錦恒汽車安全技術控股有限公司

(Incorporated in the Cayman Islands with limited liability)

JIN HENG



ANNUAL REPORT 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Jinheng Automotive Safety Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company (the "Directors"), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Board of Directors

Executive Directors

Mr. Li Feng, *Chairman*
Mr. Xing Zhanwu, *Chief Executive Officer*
Mr. Zhao Qingjie
Mr. Yang Donglin
Mr. Foo Tin Chung, Victor, *Financial Controller*

Non-Executive Directors

Mr. Li Hong
Mr. Zeng Qingdong

Independent Non-Executive Directors

Mr. Chan Wai Dune
Mr. Zhong Zhihua
Mr. Zhu Tong

Company Secretary

Mr. Foo Tin Chung, Victor, *CPA, CPA (Aust.)*

Authorised Representatives

Mr. Li Feng
Mr. Foo Tin Chung, Victor, *CPA, CPA (Aust.)*

Compliance Officer

Mr. Foo Tin Chung, Victor, *CPA, CPA (Aust.)*

Qualified Accountant

Mr. Foo Tin Chung, Victor, *CPA, CPA (Aust.)*

Audit Committee

Mr. Chan Wai Dune
Mr. Zhong Zhihua
Mr. Zhu Tong

Registered Office

Century Yard, Cricket Square
Hutchins Drive
P. O. Box 2681 GT
George Town, Grand Cayman
Cayman Islands, British West Indies

Head Office and Principal Place of Business in the PRC

Bohai Avenue
Jinzhou Economic & Technical Development Zone
Jinzhou
Liaoning Province
PRC

Principal Place of Business in Hong Kong

Unit 1203
12th Floor
Crocodile House II
55 Connaught Road Central
Hong Kong

Principal Share Registrar And Transfer Office

Butterfield Bank (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Town
Grand Cayman
Cayman Islands

Principal Bankers

The Bank of East Asia
Bank of Communication
Industrial and Commercial Bank of China

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Auditors

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Sponsor

VC Capital Limited
38th Floor, The Centrium
60 Wyndham Street, Central
Hong Kong

Legal Advisers

As to Cayman Island Law:
Conyers Dill & Pearman, Cayman
Century Yard, Cricket Square, Hutchins Drive,
George Town, Grand Cayman, Cayman Islands

As to Hong Kong Law:
Heller Ehrman White & McAuliffe
35th Floor, One Exchange Square
8 Connaught Place
Central, Hong Kong

O'Melveny & Myers
Suite 1905, Tower Two, Lippo Centre,
89 Queensway, Central,
Hong Kong

Stock Quote

8293

Web Site of the Company

www.jinhengairbag.com

To Our Shareholders

On behalf of the board of Directors (the "Board"), I am pleased to present the first annual report of Jinheng Automotive Safety Technology Holdings Limited (the "Company") and its subsidiaries (the "Group") and its audited financial results for the fiscal year ended 31 December 2004.

Year 2004 marks an important milestone in the corporate history of the Group with our successful listing on GEM on 9 December 2004 with an over-subscription of 57.6 and 2.64 times on the initial public offering and the institutional placing trenches. The listing had substantially strengthened the Group's financial capability in fulfilling its plans for growth and expansion, thus laying an important foundation for future development. It also provides an opportunity for the Group to enter into the international automotive safety device supplier platform.

Business Review

The Group is principally engaged in the design, research and development, manufacture and sale of automotive safety airbag systems. Currently, the Group's major products are safety airbag systems used in automobiles.

The fiscal year 2004 was a remarkable and challenging year. As the rapid growth in the automobile industry in the PRC slowed down to a stable and moderate growth in the fourth quarter of 2004, major automobile manufacturers, to different extents, all experienced stock accumulation and growth slowdown. In spite of the difficult situation, the Group achieved remarkable results in 2004 under the leadership of the Board and the best endeavours of the Group's employees.

In 2004, the Group's profit attributable to shareholders was approximately HK$52 million, representing a 89% growth as compared to that of 2003 and 4% over the profit forecast of HK$50 million as stated in the Company's prospectus dated 30 November 2004 (the "Prospectus"). The Group's gross profit margin in 2004 was 39%, increasing from 26% in 2003. The strengthening of profitability was mainly attributable to the localization of production of AMS inflators, a core component of mechanical airbag system, in 2004 which has substantially lowered the Group's production cost.

Turnover of the Group in 2004 was approximately HK$182.3 million, representing a mild decrease from 2003. This was mainly due to the reduced number of orders placed by the Group's customers as their stock increased.

In 2004, the Group achieved significant improvements in the development of new markets and customers, with over 3 new customers including SAIC GM Wuling Automobile Co. Ltd. and development contracts for more than 8 new vehicle models acquired. The Group has now established business relationship with over 25 customers with over 40 types of models. Currently, over 20 models of new automotive airbag systems are under development and those systems will be gradually launched on the market in the next three years. The Group's laboratory was certified by the China National Accreditation Board for Laboratories in March 2004, significantly enhancing the Group's position in the automobile industry in PRC.

The Group obtained the ISO TS16949 qualification in December 2004, which further enhanced the Group's capacity in quality assurance.

The completion of construction of plant with a gross area of 4,900 square meters by the Group on 3 January 2005, and the installation of automatic PAB/DAB production and fabrication line further enhanced the production level and capacity of the Group. Currently, the Group's integrated production and processing facilities have an annual production capacity of approximately 280,000 sets of electronic and mechanical safety airbag systems.

The Group commenced the development of side-protection safety airbag system in 2004, and the Directors believe that the project is of great significance in strengthening the Group's competitiveness in the future.

Under the leadership of the Board, the Group strived for its best and achieved remarkable results in 2004, bringing satisfactory return to its investors and shareholders.

Outlook and Future Prospects

Looking forward to the prospect of the automobile industry in the PRC, the Directors consider that the automobile industry in PRC will gradually recover in 2005 and enter into a stage of steady growth. The Group is devoted to becoming an internationally renowned automobile spare parts supplier with the core business of supplying automotive safety devices. To this end, the Group will continue to double its efforts on market exploration and make use of the opportunities brought about by the localization of large scale international automobile manufacturers, with the objective to expand its groups of customers and to refine its customer structure. The Group will reinforce its effort in developing overseas markets so as to play a part in the international automobile spare parts purchase and supply system.

The Group will expand its production capacity and upgrade the production level and capacity of automotive safety airbag system and of related spare parts by acquiring advanced equipment. Localization of producing automotive safety airbag system, and in particular, electronic inflator, will be strengthened in order to reduce the system cost substantially and sell the localized spare parts overseas.

The Group's development capacity will be strengthened by employing international research and development personnel and acquiring advanced equipment. The Group will put more effort in developing new products such as side-protection safety airbag system and curtain safety airbag system, building a solid foundation for the Group's future development.

The formation of strategic alliance with major overseas and domestic spare parts suppliers will be sought in order to increase the competitiveness of the Group. The Group's market share can be increased with the formation of member companies comprised of both PRC and overseas automobile manufactures while the expansion into overseas market for safety airbag systems can enable the Group to become an international supplier of automobile safety systems.

In 2005, the Group will leverage on the golden opportunity of its successful listing in Hong Kong to speed up its pace of development and regulate its management so as to build a solid foundation for realizing the Group's achievements.

Appreciation

On behalf of the Board, I would like to express our sincere thanks to all our shareholders for their ongoing support to the Group and to my colleagues for their invaluable contributions throughout the year.

Li Feng
Chairman

Hong Kong, 23 March 2005

Results of Operations

For the fiscal year ended 31 December 2004, the Group reported turnover of approximately HK$182.3 million, representing a slight decrease of 4% from the fiscal year ended 2003. The slight decline was due to the stock accumulation and slowdown in growth of major automobile manufacturers caused by the China's tightening policies on the automotive industry in the third quarter of 2004. Nevertheless, profit from operations increased from approximately HK$41.9 million for year 2003 to approximately HK$56.0 million for the current year. The increase in profit was mainly contributed by the improvement in the profit margin from HK$50.0 million to HK$71.1 million or from 26.3% to 39.0% resulted from the localization of a major raw material.

Other revenue decreased mainly due to the cessation of one-off subsidy income of approximately HK$1.5 million received from the municipal government authorities in recognition of the contribution to the community during the fiscal year 2003.

Distribution costs increased to approximately HK$3.3 million or 43%. The increase was mainly due to increased sales and marketing activities as a result of an increase in the numbers of sales persons in the Company.

Research and development expenses for fiscal year 2004 increased from approximately HK$0.5 million to approximately HK$3.1 million. The increase was mainly due to approximately HK$5.3 million of a one-off government subsidy granted in fiscal year 2003.

Administrative expenses increased by approximately HK$1.9 million. The increase was mainly due to an increase in headcount for administration personnel and additional depreciation resulting from the increase of fixed assets during the year.

The decrease in finance costs of approximately HK$0.8 million was contributed by an interest expense subsidy of RMB1.6 million. The subsidy is designated to cover the actual interest expenses on the loan of RMB28.0 million utilized for financing the technological reform project.

The income tax charge of approximately HK$48,000 for the current year represented the under-provision of PRC income tax in respect of prior year. Subsequent to the transformation into a wholly-owned foreign enterprise, the Group's principal operating subsidiary, Jinzhou Jinheng Automotive Safety System Co., Ltd., has entitled a 2-years full income tax exemption and 3-years 50% PRC income tax reduction starting from the current fiscal year. Hence, taxation for the current year was eliminated.

Driven by an increase in gross profit margin and a decrease in taxation charges, profit attributable to shareholders showed a substantial increase from approximately HK$27.5 million to approximately HK$51.8 million.

Liquidity, Financial Resources and Funding and Treasury Policy

The Group continued to improve its financial resources and liquidity position. As at 31 December 2004, the Group had bank and cash balances of approximately HK$92.8 million (2003: approximately HK$40.4 million) and net current assets of approximately HK$141.7 million, representing an increase of 8.2 times from approximately HK$15.4 million of last fiscal year.

Non-current assets value increased by approximately HK$18.2 million to approximately HK$77.8 million in fiscal year 2004. The increase was mainly due to investment in fixed assets and construction in progress by approximately HK$8.1 million and HK$9.0 million respectively.

As at 31 December 2004, the Group had non-current liabilities of approximately HK$41.6 million for the expansion of the Group's production facilities. It includes a long-term bank loan of approximately HK$26.4 million (equivalent to RMB28.0 million), which is repayable on July 2007 and bears fixed interest rate of 5.58% per annum, and another long-term bank loan of HK$15.2 million (equivalent to RMB16.1 million), which is repayable on July 2006 and bears fixed interest rate of 5.49% per annum. The Group also had a current term loan of HK$34.8 million, of which HK$15.9 million (equivalent to RMB16.9 million) bears fixed interest rate of 5.49% per annum and HK$18.9 million (equivalent to RMB20.0 million) bears fixed interest rate of 5.04% per annum.

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2004, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Charge on Group Assets

As at 31 December 2004, the Group pledged over its leasehold land and buildings with aggregate carrying value of approximately HK$7.5 million for a bank loan of RMB28.0 million (equivalent to HK$26.4 million).

Gearing Ratio

The Group's gearing ratio, which was derived from the total borrowings to total assets, decreased to 36.8% from 91.4% in 2003.

Future Plans for Material Investments

Save as disclosed in the Prospectus, the Company had no material acquisition or capital expenditure plan as of 31 December 2004.

Material Acquisitions and Disposals

Except for those set out in the Prospectus and note 1 in this report, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Significant Investment

There was no significant investment during the year.

Contingent Liabilities

As at 31 December 2004, the directors of the Company were not aware of any material contingent liabilities.

Subsequent Events

No subsequent events occurred after 31 December 2004, which may have significant effects, on the assets and liabilities of future operations of the Group.

Foreign Exchange Exposure

Since all transactions of the Group are denominated in Renminbi, Hong Kong dollars or US dollars and the exchange rates of such currencies were stable over the years under review, the Directors believe that such exposure does not have any significant adverse effect to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

Employees and Remuneration Policy

As at 31 December 2004, the Group employed approximately 240 staff in the PRC and Hong Kong, representing an increase of 41 staff from 31 December 2003. The increase in staff was mainly from the PRC operations. Accordingly, the Group's remuneration to employees, including directors' emoluments, increased by approximately HK$0.4 million to approximately HK$4.6 million for the current fiscal year.

The Group reviews employee remuneration from time to time and salary increment is normally approved annually or by special adjustment depending on length of services and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

Capital Structure

The Company was listed on GEM of the Stock Exchange on 9 December 2004 through offering a total of 95,970,000 shares, in which 86,372,000 shares are placing shares and a public offering of 9,598,000 new shares. The 86,372,000 placing shares comprising 71,402,000 new shares and 14,970,000 sale shares. The net proceeds from this offering, after deduction for relevant expenses, is approximately HK$80.5 million. Since the listing of the Company's shares on GEM of the Stock Exchange on 9 December 2004, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

Sponsor's Interest

Pursuant to an agreement dated 29 November 2004 entered into between the Company and VC Capital Limited, the VC Capital Limited would receive a monthly fee for acting as the Company's retained sponsor for the remainder of the year ended 31 December 2004 and for the period of two years thereafter until 31 December 2006.

As at 31 December 2004, VC Capital Limited had indirect interest in the shares of the Company held by VC Strategic Investments Limited through its interests in certain associated companies, both VC Capital Limited and VC Strategic Investments Limited are wholly-owned subsidiaries of Value Convergence Holdings Limited, a company listed on GEM. As at 31 December 2004, VC Strategic Investments Limited was beneficially interested in 11% of the issued capital of Top Growth Assets Limited, and Top Growth Assets Limited was beneficially interested in 27% of the issued capital of WAG (Greater China) Limited. WAG (Greater China) Limited is beneficially interested in 9,000,000 shares of the Company, representing approximately 2.36% of the total issued capital of the Company.

Save as disclosed above, none of VC Capital Limited, its directors, employees or their respective associates had any shareholding interests in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2004.

Competing Interest

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

In compliance with the GEM Listing Rules, the Company sets out below a summary of actual business progress as measured against the business objectives set out in the Prospectus for the period from 22 November 2004 to 31 December 2004 (the "Relevant Period").

Business Objectives for the Relevant Period as stated in the Prospectus	Actual Business Progress
Expansion of Production Capacity	
• Continue construction of the new integrated production premises.	Construction of the new premises in Jinzhou Economic and Technological Development Zone in Liaoning Province, the PRC with gross floor area of approximately 4,900 square meters was completed on 3 January 2005. The Group now has an annual production capacity of approximately 280,000 sets of electronic and mechanical safety airbag systems.
• Install production facilities for textile airbags which are one of the spare parts of the airbag safety systems.	Commenced the installation of production facilities for textile airbags and installation of the same was completed on 3 January 2005.
• Install automatic folding machines to fold the textile airbags in order to place them in the airbag covers.	Commenced the installation of automatic folding machines and installation of the same was completed on 3 January 2005.
• Install production facilities for manufacturing airbag covers.	Commenced the installation of production facilities for manufacturing airbags covers and installation of the same was completed on 3 January 2005.
Localization and self-production of key components	
• Conduct studies on the localization of electronic DAB inflators.	Study of electronic DAB inflators localization has been commenced.
• Conduct studies on the localization of electronic PAB inflators.	Study of electronic PAB inflators localization has been commenced.
• Install production facilities for manufacturing electronic DAB and PAB inflators.	The Company has commenced the installation of production facilities for manufacturing electronic DAB and PAB inflators.

Business Objectives for the Relevant Period as stated in the Prospectus	Actual Business Progress
Enhancement of research and development capability	
• Recruit 1 technical expert for research and development.	During the Relevant Period, no suitable technical expert has been recruited. Currently, the Company is recruiting a technical expert of the research and development for the development of the new products.
• Attend conferences in relation to automotive industry.	During the Relevant Period, no relevant conference of the automotive industry has been held. The Company is considering to attend different conferences of the automotive industry held in 2005.
Formulating strategic alliances	
• Formulate strategy to establish strategic alliance with automobile manufacturers in the PRC.	The Group plans to seek cooperation with other automobile spare part suppliers in the PRC.
• Commence discussion with major supplier in the PRC to form strategic alliance.	The Group has commenced communications with the major supplier in the PRC to form strategic alliance.
• Identify suitable international suppliers of spare parts for joint venture partnership.	The Group has commenced communications with international suppliers of spare parts for the joint venture partnership.

Executive Directors

Mr. Li Feng, aged 43, is the chairman of the Company. Mr. Li, joined the Group in 1997 and is responsible for the overall general management of the Group. Mr. Li graduated from the Beijing University of Aeronautics and Astronautics in 1983 with a bachelor's degree in missile designing. From 1983 to 1996, Mr. Li was employed at Taiyuan Aero-Instruments Co., Ltd. ("Taiyuan Aero") as engineer. There is a service agreement between the Company and Mr. Li pursuant to which the emoluments payable to Mr. Li is HK$700,008 per annum. Mr. Li was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association of the Company. Save as disclosed hereof, Mr. Li does not hold any other positions in the Company or other members of the Group.

Mr. Xing Zhanwu, aged 41, is the chief executive officer of the Company. Mr. Xing joined the Group in 1997 and is responsible for the Group's sales and marketing as well as the Group's overall business development. Mr. Xing graduated from Northwestern Polytechnical University with a bachelor's degree in machinery manufacture engineering in 1984. From July 1984 to August 1996, Mr. Xing had worked at Taiyuan Aero as engineer. In January 1997, Mr. Xing joined the Group as general manager and led the Group to succeed in two pioneering airbag system development projects with FAW Car Company Limited ("FAW") and Dongtong Peugeot Citro'n. There is a service agreement between the Company and Mr. Xing pursuant to which the emoluments payable to Mr. Xing is HK$500,004 per annum. Mr. Xing was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association of the Company. Save as disclosed hereof, Mr. Xing does not hold any other positions in the Company or other members of the Group.

Mr. Zhao Qingjie, aged 47, joined the Group in October 1997. Mr. Zhao has extensive experience and knowledge in the automobile industry in the PRC and is responsible for strategic development and corporate development of the Group. In 1982, Mr. Zhao graduated from the Jinzhou Institute of Technology with a bachelor's degree in tractor. Since 1997, Mr. Zhao has been the chairman of Jinzhou Wonder Enterprises (Group) Co., Ltd. ("Jinzhou Wonder"). Mr. Zhao is also the chairman of Wonder Auto Group Limited and Jinzhou Halla Electrical Equipment Company Limited ("Jinzhou Halla"). There is a service agreement between the Company and Mr. Zhao pursuant to which the emoluments payable to Mr. Zhao is HK$500,004 per annum. Mr. Zhao was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association of the Company. Save as disclosed hereof, Mr. Zhao does not hold any other positions in the Company or other members of the Group.

Mr. Yang Donglin, aged 39, is the deputy general manager of Jinzhou Jinheng Automotive Safety System Co., Ltd. ("Jinheng Automotive"). Mr. Yang is responsible for the overall technical and research and development of the Group. Mr. Yang graduated from Northwestern Polytechnical University in 1985 with a bachelor's degree in aircrafts designing. Mr. Yang had worked at Taiyuan Aero as engineer from 1985 to 1999. While working at the Taiyuan Aero. In 1997, Mr. Yang joined the Group and represented the Group in technical exchange programmes with overseas experts. Mr. Yang held the position of senior technician in a number of Group's airbag system development projects. There is a service agreement between the Company and Mr. Yang pursuant to which the emoluments payable to Mr. Yang is HK$180,000 per annum. Mr. Yang was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association of the Company. Save as disclosed hereof, Mr. Yang does not hold any other positions in the Company or other members of the Group.

Mr. Foo Tin Chung, Victor, aged 36, has over ten years' experience in the finance and accounting fields. Mr. Foo is the financial controller, qualified accountant, company secretary and compliance officer of the Company. Mr. Foo holds a bachelor's degree in accounting and information system in the University of New South Wales in Australia. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is primarily responsible for the development of the Group's financial strategies, accounting and financial reporting and internal control procedures. He held management position at subsidiaries of listed companies in Hong Kong and was an auditor of an international audit firm. He joined the Group in July 2004 as the full time qualified accountant. There is a service agreement between the Company and Mr. Foo pursuant to which the emoluments payable to Mr. Foo is HK$624,000 per annum. Mr. Foo was appointed for a fixed term of 3 years commencing from 9 December 2004 but will be subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association of the Company. Save as disclosed hereof, Mr. Foo does not hold any other positions in the Company or other members of the Group.

Non-Executive Directors

Mr. Li Hong, aged 41, joined the Group in 2001. Mr. Li graduated from the Beijing University of Aeronautics and Astronautics with a bachelor's degree in metal materials in 1983. In 1994, Mr Li graduated from the Beijing University of Aeronautics and Astronautics with a master's degree in corrosion and protection. From 1983 to 1996, Mr. Li was employed at Taiyuan Aero. Mr. Li is also a director of Taiyuan Daheng General Electric Appliance Manufacturing Company Limited ("Taiyuan Daheng"). There is no service agreement between the Company and Mr. Li. The emoluments payable to Mr. Li is HK$100,008 per annum. Mr. Li was not appointed for a fixed term but will be subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association of the Company.

Mr. Zeng Qingdong, aged 41, is the brother-in-law of Mr. Gao Xiangdong who is a significant shareholder of the Company (has the meaning ascribed to it in the GEM Listing Rules). He joined the Group in August 2002. Mr. Zeng graduated from the Liaoning Institute of Technology in 1985 with a bachelor's degree in science and in 1988 from the Jilin Institute of Technology with a master's degree in science. Mr. Zeng joined Jinzhou Wonder in April 1997 and is currently a deputy general manager of Jinzhou Wonder. There is no service agreement between the Company and Mr. Zeng. The emoluments payable to Mr. Zeng is HK$100,008 per annum. Mr. Zeng was not appointed for a fixed term but will be subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association of the Company.

Independent Non-Executive Directors

Mr. Chan Wai Dune, aged 52, is a fellow member of The Chartered Association of Certified Accountants, a fellow member of The Taxation Institute of Hong Kong and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Chan is the managing director of CCIF CPA Limited, a firm of certified public accountants in Hong Kong. He also holds or once held positions in various community service bodies and professional service bodies including a member of CPPCC of Guangzhou Municipal Committee, a member of the Executive Council of China Overseas Friendship Association, a member of the Selection Committee for the establishment of the First Government of The Hong Kong Special Administrative Region, honorary president of The Hong Kong Wan Chai District Association and a member of The Small and Medium Practitioners Committee of Hong Kong Society of Accountants. Mr. Chan was appointed as independent non-executive Director in March 2004. There is no service agreement between the Company and Mr. Chan. The emoluments payable to Mr. Chan is HK$150,000 per annum. Mr. Chan was not appointed for a fixed term but will be subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association of the Company.

Dr. Zhong Zhihua, aged 42, is currently the Dean of College of Mechanical and Automotive Engineering in Hunan University. In 2001, Mr. Zhong was appointed one of the experts of the National High Technology Research and Development Program (863 Program), which was launched with the aim of enhancing China's international competitiveness and improving China's overall capability of research and development in high technology. Mr. Zhong graduated from Hunan University with a bachelor's degree in 1982. In 1988, Mr. Zhong graduated with a doctor's degree in Universitet I Linkoping in Sweden. Mr. Zhong was appointed as an independent non-executive Director in March 2004. There is no service agreement between the Company and Mr. Zhong. The emoluments payable to Mr. Zhong is HK$80,004 per annum. Mr. Zhong was not appointed for a fixed term but will be subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association of the Company.

Mr. Zhu Tong, aged 33, is currently the assistant general manger of 興業証券股份有限公司 (Xing Ye Securities Co., Ltd.) Mr. Zhu graduated from the Research Institute of the People's Bank of China in 1998 with a master's degree in international finance. Mr. Zhu was appointed as an independent non-executive Director in March 2004. There is no service agreement between the Company and Mr. Zhu. The emoluments payable to Mr. Zhu is HK$80,004 per annum. Mr. Zhu was not appointed for a fixed term but will be subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the Articles of Association of the Company.

Senior Management

Mr. Hao Dianqing, aged 53, is the general manager of Jinheng Automotive. He joined the Group in May 2003. Mr. Hao is responsible for the overall operation of Jinheng Automotive. In 1985, Mr. Hao graduated from Beijing Institute of Aeronautics with an associate's degree in system and management engineering. In 2000, Mr. Hao graduated from the Zheng Zhou Institute of Aernoautic Technology with a bachelor's degree in accounting.

Mr. Xing Zhanwen, aged 45, brother of Mr. Xing Zhanwu, is currently the deputy general manager of the Jinheng Automotive. Mr. Xing joined the Group in April 1998 and is responsible for the Group's sales and marketing. From 1980 to 1998, Mr. Xing was employed at Datong Dong Jiao Water Treatment Plant) firstly as the branch team lender and later as the vice plant manager before joining the Group in 1998.

Mr. Zhang Qiming, aged 40, joined the Group in July 1999 and is currently the deputy general manager of Jinheng Automotive. Mr. Zhang graduated from the Liaoning Institute of Technology in 1988. Prior to joining the Group, Mr. Zhang was employed at Jinzhou Wonder as a sales manager.

Mr. Zhu Jiangbin, aged 46, joined the Group in October 1999 and is currently the deputy general manager of Jinheng Automotive. Mr. Zhu graduated from Northwestern Polytechnical University with a bachelor's degree in 1981. Prior to joining the Group, Mr. Zhu was employed at Taiyuan Aero.

Ms. Zhang Liping, aged 42, joined the Group in April 1998 as the head of the finance department of Jinheng Automotive. Ms. Zhang graduated from 錦州師範學院分校化學系 (Jinzhou Teacher College Branch Campus -Chemistry Faculty) in 1982. Prior to joining the Group, Ms. Zhang was employed by Jinzhou Wonder as deputy department head in the finance department.

Mr. Cao Feng, aged 31, joined the Group in 1999 and is the assistant to chief executive officer of the Company. Mr. Cao is responsible for the coordination of the sales and marketing functions of the Group. Mr. Cao graduated from Taiyuan University of Technology with a bachelor's degree in industrial electrical automation in 1997. Mr. Cao successfully assisted the Group in establishing business relationship with a number of domestic automobile manufacturers.

Consultant

Dr. Zhu Xichan, aged 42, has been a consultant to the Group since January 2002 regarding the overall technical development and regulatory compliance. Dr. Zhu graduated from Tsinghua University in 1995 with a Doctor of Philosophy (PhD) degree in Automotive Engineering. Dr. Zhu is one of the experts in the development of automobile safety standards in the PRC. Dr. Zhu joined China Automotive Technical Research Centre in 1996. In 2001, Dr. Zhu was appointed as Specialist of China Automotive Engineer Association and team member of the National Automotive Standardisation and Technical Committee's Automotive Safety Airbag Standard Working Team.

The directors have pleasure in submitting their first annual report together with the audited financial statements of Jinheng Automotive Safety Technology Holdings Limited ("the Company") and its subsidiaries (together with the "Group") for the year ended 31 December 2004.

Group Reorganisation

The Company was incorporated in the Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 22 November 2004, to rationalise the structure of the Group in preparation for the public listing of its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company becomes the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation and the basis of preparation of the financial statements are set out in note 1 to the financial statements and in the Company's prospectus dated 30 November 2004 (the "Prospectus").

The Company's shares were listed on GEM on 9 December 2004.

Principal Activities

The principal activity of the Company is investment holding and the Group is principally engaged in production and sales of automotive safety products in the People's Republic of China ("the PRC"). The principal activities and other particulars of its subsidiaries are set out in note 18 on the financial statements.

The Group's turnover for the year is principally attributable to the sales of automotive safety products to customers net of sales tax and value added tax. An analysis of the turnover from the principal activities during the financial year is set out in note 4 on the financial statements.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	27.6%	
Five largest customers in aggregate	79.7%	
The largest supplier		41.7%
Five largest suppliers in aggregate		83.4%

Major Customers and Suppliers *(Continued)*

Shanxi Jinheng Automotive Spare Parts Co., Ltd. is the largest supplier, the 35% owned jointly controlled entity of the Group. Please refer to note 36 on the financial statements for details.

Save as disclosed above and so far as the Board are aware, neither the directors, their associates nor any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Financial Statements

The profit of the Group for the year ended 31 December 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 30 to 82.

Dividends

Pursuant to a resolution passed at a directors' meeting on 23 March 2005, a final dividend of 5.5 HK cents per share totalling HK$20,955,000 was recommended to be paid to shareholders of the Company, subject to shareholders' approval at the forthcoming annual general meeting.

Charitable Donations

No donation was made by the Group during the year (2003: HK$Nil).

Fixed Assets

Details of movements in fixed assets are set out in note 16 on the financial statements.

Reserves

Details of movements in reserves of the Company and the Group during the year are set out in note 34 on the financial statements.

Share Capital

Details of movements in share capital of the Company during the year are set out in note 33 on the financial statements. Shares were issued during the year pursuant to the Reorganisation and the listing to broaden the capital base of the Company.

Directors

The directors during the financial year and up to the date of this report were:

Executive directors

Mr. Li Feng

Mr. Xing Zhanwu

Mr. Zhao Qingjie

Mr. Yang Donglin

Mr. Foo Tin Chung, Victor

Non-executive directors

Mr. Li Hong

Mr. Zeng Qingdong

Independent non-executive directors

Mr. Chan Wai Dune

Dr. Zhong Zhihua

Mr. Zhu Tong

In accordance with Articles 86(3) of the Articles of Association of the Company, all of the directors, namely, Messrs. Li Feng, Xing Zhanwu, Zhao Qingjie, Yang Danglin, Foo Tin Chung, Victor, Li Hong, Zeng Qingdong, Chan Wai Dune, Zhong Zhihua and Zhu Tong will retire at the forthcoming annual general meeting and, being eligible, would offer themselves for re-election.

Directors' Service Contracts

On 22 November 2004, all the executive directors entered into a service contract with the Company for an initial term of three years effective from 9 December 2004. Each executive director is committed by the respective service contracts to devote himself exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of his conduct of business affairs, among other commitments. All executive directors are also entitled to a discretionary bonus calculated as a percentage of the audited consolidated profit of the Group attributable to shareholders of the Company. The percentage shall be determined by the board of directors but in any case the aggregate amount payable for each financial year to all the executive directors of the Company shall not exceed 4% of such profit.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other then statutory compensation.

Directors' and Chief Executive's Interest and Short Positions in Shares, underlying Shares and Debentures

As at 31 December 2004, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 the GEM Listing Rules were as follows:

(a) Long positions in issued shares

Name of director	Capacity	Number of shares	Approximate percentage of shareholding
Li Feng	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Xing Zhanwu	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Li Hong	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Yang Donglin	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*
Zhao Qingjie	Interest of a controlled corporation *(Note)*	*(Note)*	*(Note)*

Directors' and Chief Executive's Interest and Short Positions in Shares, underlying Shares and Debentures *(Continued)*

(a) Long positions in issued shares *(Continued)*

Note: As at 31 December 2004, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited ("Applaud Group") which held approximately 62.63% in the Company:

Shareholder		Number of shares held in Applaud Group		%
The Controlling Group		5,467		54.67
Li Feng	2,286		22.86	
Xing Zhanwu	1,281		12.81	
Xu Jianzhong	719		7.19	
Li Hong	616		6.16	
Yang Donglin	565		5.65	
Zhao Qingjie		1,750		17.50
Gao Xiangdong		1,500		15.00
Zhao Jiyu		400		4.00
Lin Qing		223		2.23
Zhou Yuquan		214		2.14
Cao Feng		133		1.33
Zhang Chengyu		128		1.28
Zhang Chenye		100		1.00
Zhang Meina		85		0.85
Total		10,000		100

(b) Interests in underlying shares

The directors and chief executive of the Company have been granted options under the Pre-IPO Employee Share Option Scheme, details of which are set out in the section "Share Option Schemes" below.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or Rules 5.46 to 5.67 of the GEM Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

Share Option Schemes

The Company has two share option schemes namely, the Pre-IPO Employee Share Option Scheme and the Share Option Scheme as defined in the Prospectus which were adopted on 22 November 2004. A summary of principal terms of the share option schemes were disclosed in Appendix VI to the Prospectus.

The total number of securities available for issue under the share option schemes as at 31 December 2004 was 49,500,000 shares (including options for 11,400,000 shares that have been granted but not yet lapsed or exercised) which represented approximately 12.99% of the issued share capital of the Company as at 31 December 2004.

As at 31 December 2004, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2004 is HK$1.04) granted for at a consideration of HK$1 under the share option schemes of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$0.01 each of the Company.

Share Option Schemes *(Continued)*

(a) Pre-IPO Employee Share Option Scheme

On 22 November 2004, the Company granted options to subscribe for a total of 11,400,000 Shares under the Pre-IPO Employee Share Option Scheme to three Directors and seven other employees of the Group, with the following details:

Name	Position	No. of options outstanding at the beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options exercisable	No. of share acquired on exercise of options during the year	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Mr. Li Feng (李峰)	Executive director and chairman of the Company	—	2,600,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Xing Zhanwu (邢戰武)	Executive director and chief executive officer of the Company	—	2,000,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Foo Tin Chung, Victor (傅天忠)	Executive director and financial controller of the Company	—	800,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Hao Dianqing (郝殿卿)	Employee, general manager of Jinheng Automotive	—	1,080,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Xing Zhanwen (邢占文)	Employee, deputy general manager of Jinheng Automotive	—	880,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Zhang Qiming (張啟明)	Employee, deputy general manager of Jinheng Automotive	—	1,000,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Zhu Jiangbin (朱江濱)	Employee, deputy general manager of Jinheng Automotive	—	880,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Ms. Zhang Liping (張麗萍)	Employee, head of the finance department of Jinheng Automotive	—	840,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Zhao Chengming (趙成明)	Employee, general manager of Jinbei Jinheng	—	720,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
Mr. Chen Lixin (沈立新)	Employee, general manager of Hafei Jinheng	—	600,000	22 November 2004	9 December 2005 to 9 December 2008	—	HK$0.38	HK$0.788	N/A
		—	11,400,000			—			

The options granted to the directors/employees are registered under the names of the directors/employees who are also the beneficial owners.

* being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

Share Option Schemes *(Continued)*

(a) Pre-IPO Employee Share Option Scheme *(Continued)*

The share options granted are not recognised in the financial statements until they are exercised. The weighted average value per option granted in 2004 estimated at the date of grant using binomial lattice pricing model was HK$0.788. The calculation of the weighted average value per option granted during the year does not take into account options granted and forfeited during the year. The weighted average assumptions used are as follows:

	2004
Risk-free interest rate	2.1%
Expected life (in years)	4 years
Volatility	50.0%
Expected dividend per share	2.3%

The binomial lattice pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the binomial lattice pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

(b) Share Option Scheme

As at 31 December 2004, no option has been granted under the Share Option Scheme.

Substantial Interest in the Share Capital of the Company

As at 31 December 2004, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

	Ordinary shares held	**Percentage of total issued shares**
Applaud Group	238,620,000	62.63%
HKSCC Nominees Limited	95,266,000	25.00%

Substantial Interest in the Share Capital of the Company *(Continued)*

Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Short positions in shares

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

Short positions in underlying shares

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 31 December 2004, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' Interests in Contracts

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year save and except for the agreements as stated in section headed "Connected transactions" in the Prospectus.

Purchase, Sale or Redemption of Shares

Since the listing of the Company's shares on GEM on 9 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2004 are set out in notes 27, 28, 29 and 30 on the financial statements.

Retirement Schemes

The Group maintains a mandatory provident fund (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employee's contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employee (up to a cap of monthly relevant income of HK$20,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Jinzhou, the PRC whereby the Group is required to make contributions to the Schemes at the rate of 24% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

Application of Proceeds from Capital Raising

The Group raised approximately HK$80.5 million from the issue of 81,000,000 new shares of the Company at HK$1.18 per share in December 2004. The Company's shares were successfully listed on GEM with effect from 9 December 2004. Up to the date of this report, the Group has applied part of the proceeds totalling approximately HK$12.9 million for the following purposes:

(i) approximately HK$3.3 million for the expansion of production capacity;

(ii) approximately HK$9.3 million for the localization and self-production of key components;

(iii) approximately HK$0.2 million for the enhancement of research and development capilities; and

(iv) approximately HK$0.1 million as additional working capital of the group.

Consistent with the disclosure in the Prospectus, the Group intends to apply the remaining proceeds of approximately HK$67.6 million for the following purposes:

(i) as to approximately HK$16.0 million for further expansion of production capacity;

(ii) as to approximately HK$18.4 million for further localization and self-production of key components;

(iii) as to approximately HK$9.7 million for the enhancement of research and development capabilities;

(iv) as to approximately HK$17.7 million for formulating strategic alliances; and

(v) as to approximately HK$5.8 million as additional working capital of the Group.

The remaining net proceeds from the new share issue are currently placed on short term deposits with banks in Hong Kong.

Continuing Connected Transactions

The Supply Contract under the Hafei JV Agreement — Continuing Connected Transactions

On 17 September 2003, the Group entered into a joint venture agreement with Hafei Motor Co. Ltd. ("Hafei Motor"). Pursuant to the Hafei JV Agreement, Harbin Hafei Jinheng Automotive Safety System Co. Ltd. ("Hafei Jinheng") was established and owned as to 90% by the Group and 10% by Hafei Motor and the products to be manufactured by Hafei Jinheng will be safety airbag systems which are suitable for different models of automobiles of Hafei Motor. It is the intention of the Group and Hafei Motor that all products of Hafei Jinheng will be sold to Hafei Motor.

Hafei Motor is a substantial shareholder holding 10% equity interest in Hafei Jinheng and therefore a connected person of the Group under the GEM Listing Rules.

On 22 November 2004, Jinzhou Jinheng Automotive Saftey System Co., Ltd. ("Jinheng Automotive"), Hafei Jinheng and Hafei Motor entered into a tri-parties supply contract (the "Supply Contract") for a term ending on 31 December 2006 pursuant to which Hafei Motor indicated that the estimated maximum value of orders to be placed by Hafei Motor (the "Annual Cap") for the three years ending 31 December 2006 would not exceed HK$40 million, HK$50 million and HK$80 million, respectively.

The directors expect that the aggregate orders from Hafei Motor for the three financial years ending 31 December 2006 will exceed HK$10,000,000 in each of the corresponding year under Rules 20.34 of the GEM Listing Rules. As such, the transactions under the Supply Contract will constitute non-exempt continuing connected transactions under Rule 20.35 of the GEM Listing Rules.

Sub-lease Agreement — Exempt Continuing Connected Transaction

Hafei Jinheng and Hafei Motor entered into a sub-lease agreement dated January 2004 whereby Hafei Motor would sub-let the property situate at Block 29B (except a mechanical room) inside a factory complex located at No. 15 You Xie Da Jie, Ping Fang District, Harbin, Heilongjiang Province, PRC with a total area of approximately 1,182.84 sq.m. to Hafei Jinheng. This sub-lease agreement was subsequently replaced by a new sub-lease agreement between the same parties dated 1 January 2004 (the "Sub-lease Agreement"). The Sub-lease Agreement is for a term of 20 years renewable for a further terms of 10 years commencing from 3 December 2003 to 2 December 2033. The total amount of rental in the sum of RMB1.3 million for the entire 30-year term had been paid by Hafei Jinheng to Hafei Motor. The Directors (including the independent non-executive Directors) consider that such transaction is in the ordinary course of business of the Company, on normal commercial terms, and is fair and reasonable and in the interest of the Shareholders as a whole. Upon the listing of the Shares on the Main Board, the Sub-lease Agreement will constitute an exempt continuing connected transaction of the Company pursuant to Rule 20.34 of the GEM Listing Rules.

Waiver from the Stock Exchange

The Stock Exchange has granted a waiver to the Company from strict compliance with the continuing connected transaction requirements pursuant to Rule 20.42(3) of the GEM Listing Rules in respect of the Supply Contract for the three financial years ending 31 December 2006.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions are entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the Supply Contract governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "Letter") to the Board of Directors (the "Board") (a copy of which has been provided to the Stock Exchange) confirming that the continuing connected transactions:

(i) have received the approval of the Board;

(ii) are in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

(iii) have been entered into in accordance with the Supply Contract governing the continuing connected transactions; and

(iv) have not exceeded the relevant Annual Cap.

Hafei Jinheng has commenced its trial production in January 2005. Directors expect that it will commence its commercial production and sell automotive safety airbag systems to Hafei Motor in the second quarter of 2005. By then, the Directors expect that most of the transactions currently conducted between the Group and Hafei Motor will be carried out between Hafei Jinheng and Hafei Motor, whilst some will be carried out between Jinzhou Jinheng Automotive Safety System Co., Limited and Hafei Motor as Hafei Motor, depending on the types and models of automotive safety airbag systems, shall from time to time require.

Compliance with Rules 5.34 to 5.45 of the then prevailing GEM Listing Rules

Since the listing of the Company's shares on 9 December 2004, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the then prevailing GEM Listing Rules.

Audit Committee

The Company established an audit committee on 22 November 2004 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules. The audit committee currently comprises three members, Mr. Chan Wai Dune, Mr. Zhong Zhihua and Mr. Zhu Tong, who are the independent non-executive directors of the Company.

The audit committee had reviewed the Group's audited results for the year ended 31 December 2004 and had provided advice and recommendation to the Board.

Auditors

KPMG were first appointed as auditors of the Company since its incorporation on 26 February 2004.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

Adopted Code for Securities Transactions by Directors

During the year ended 31 December 2004, the Company has adopted the code set out in the Rules 5.46 to 5.68 of the GEM Listing Rules for securities transactions by Directors. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the Adopted Code regarding securities transactions by directors.

Independence of Independent Non-executive Directors

The Company has received from each Independent Non-executive Directors an annual confirmation for independence pursuant to Rule 5.09 of the GEM Listing Rules. The Independent Non-executive Directors have confirmed that they are independent.

By order of the board

Li Feng
Chairman

Hong Kong, 23 March 2005

KPMG

Auditors' report to the shareholders of
Jinheng Automotive Safety Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 30 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 23 March 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	**2004**	2003
		$	$
Turnover	4	**182,285,188**	189,731,187
Cost of sales		**(111,203,538)**	(139,742,333)
Gross profit		**71,081,650**	49,988,854
Other revenue	5	**731,458**	2,024,273
Other net (loss)/income	6	**(197,711)**	12,919
Research and development expenses	7	**(3,111,068)**	(478,508)
Distribution costs		**(3,319,434)**	(2,320,475)
Administrative expenses		**(9,175,863)**	(7,316,482)
Profit from operations		**56,009,032**	41,910,581
Finance costs	9(a)	**(3,503,497)**	(4,337,876)
Share of losses of jointly controlled entities		**(694,922)**	(159,234)
Profit from ordinary activities before taxation	9	**51,810,613**	37,413,471
Income tax	10(a)	**(47,684)**	(9,945,979)
Profit from ordinary activities after taxation		**51,762,929**	27,467,492
Minority interests		**39,233**	—
Profit attributable to shareholders	13	**51,802,162**	27,467,492
Dividend attributable to the year	14		
Dividend proposed after the balance sheet date		**20,955,000**	—
Earnings per share	15		
— Basic		**16.99 cents**	9.16 cents
— Diluted		**16.95 cents**	N/A

The notes on pages 37 to 82 form part of these financial statements.

At 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $	2003 $
Non-current assets			
Fixed assets	16	**40,949,139**	32,799,154
Construction in progress	17	**10,199,985**	1,218,296
Interest in jointly controlled entities	19	**14,711,882**	15,406,804
Other non-current financial assets	20	**4,764,151**	4,764,151
Intangible assets	21	**7,160,376**	5,393,186
		77,785,533	59,581,591
Current assets			
Inventories	23	**39,184,992**	46,371,491
Trade receivables, prepayments and other receivables	24	**69,907,797**	90,857,588
Pledged bank deposits		**4,495**	5,578,995
Cash and cash equivalents	25	**92,823,795**	40,357,807
		201,921,079	183,165,881
Current liabilities			
Trade and other payables	26	**25,310,229**	67,802,639
Bank loans	27	**34,811,321**	23,584,906
Current taxation	22(a)	**—**	4,269,307
Shareholders' loans	28	**—**	32,550,683
Convertible bonds	29	**—**	20,000,000
Other loans	30	**—**	15,000,000
Dividend payables		**67,018**	4,536,513
		60,188,568	167,744,048
Net current assets		**141,732,511**	15,421,833
Total assets less current liabilities		**219,518,044**	75,003,424

At 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $	2003 $
Non-current liabilities			
Bank loans	27	**41,603,774**	52,830,189
Minority interests		**1,187,182**	1,226,415
NET ASSETS		**176,727,088**	20,946,820
CAPITAL AND RESERVES			
Share capital	33	**3,810,000**	—
Reserves	34	**172,917,088**	20,946,820
		176,727,088	20,946,820

Approved and authorised for issue by the board of directors on

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 37 to 82 form part of these financial statements.

At 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $
Non-current assets		
Investments in subsidiaries	18	100
Current assets		
Trade receivables, prepayments and other receivables	24	44,799,310
Cash and cash equivalents	25	41,116,146
		85,915,456
Current liabilities		
Trade and other payables	26	4,196,479
Net current assets		81,718,977
NET ASSETS		81,719,077
CAPITAL AND RESERVES		
Share capital	33	3,810,000
Reserves	34	77,909,077
		81,719,077

Approved and authorised for issue by the board of directors on

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

The notes on pages 37 to 82 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $	2003 $
Shareholders' equity at 1 January		**20,946,820**	38,247,053
Net profit for the year	34	**51,802,162**	27,467,492
Dividends approved in respect of prior year	34	**—**	(10,720,625)
Movements in share capital			
— Issuance of new shares	33 & 34	**20,000,082**	70
— Issuance of shares pursuant to the Capitalisation issue	33	**2,999,900**	—
— Shares issued under the placing and public offer	33	**810,000**	—
— Net share premium received	34	**80,168,124**	—
		103,978,106	70
Appropriations to shareholders	34	**—**	(34,047,170)
Shareholders' equity at 31 December		**176,727,088**	20,946,820

The notes on pages 37 to 82 form part of these financial statements.

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $	2003 $
Operating activities			
Profit from ordinary activities before taxation		**51,810,613**	37,413,471
Adjustments for:			
— Depreciation		**3,836,671**	3,094,636
— Profit on disposal of non-current financial assets		**—**	(1,102)
— Amortisation of intangible assets		**1,376,427**	2,099,366
— Finance costs		**3,503,497**	4,337,876
— Interest income		**(240,522)**	(141,525)
— Share of losses of jointly controlled entities		**694,922**	159,234
— Loss on disposal of fixed assets		**131,177**	—
— Provision for doubtful debts (written back)/made		**(166,489)**	81,077
— Provision for stock obsolescence		**—**	346,081
Operating profit before changes in working capital		**60,946,296**	47,389,114
Decrease/(increase) in inventories		**7,186,499**	(12,924,315)
Decrease/(increase) in trade receivables, prepayments and other receivables		**21,116,362**	(47,188,586)
Decrease in amounts due to shareholders		**—**	(548,151)
(Decrease)/increase in amounts due to jointly controlled entities		**(10,672,799)**	19,690,607
(Decrease)/increase in trade and other payables		**(31,819,611)**	5,095,940
Cash generated from operations		**46,756,747**	11,514,609
PRC income tax paid		**(4,316,991)**	(5,839,634)
Net cash generated from operating activities		**42,439,756**	5,674,975

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $	2003 $
Investing activities			
Payment for purchase of fixed assets		**(12,117,833)**	(7,501,666)
Proceeds from disposal of financial assets		**—**	48,272
Payment for investment in jointly controlled entities		**—**	(15,094,340)
Payment for the construction in progress		**(8,981,689)**	(3,002,493)
Payment for purchase of intangible assets		**(3,143,617)**	(5,321,010)
Payment for purchase of other non-current financial assets		**—**	(4,764,151)
Interest received		**240,522**	141,525
Net cash used in investing activities		**(24,002,617)**	(35,493,863)
Financing activities			
Decrease in pledged bank deposits		**5,574,500**	1,402,137
Repayment of bank loans		**—**	(61,792,453)
Repayment of loans from shareholders		**(32,550,683)**	(3,516,038)
Repayment of other loans		**(15,923,000)**	(4,716,981)
Bank loan interest paid		**(2,802,214)**	(3,176,174)
Other loan interest paid		**(701,283)**	(1,223,002)
Proceeds from new bank loans		**—**	81,132,076
Proceeds from issuance of convertible bonds		**—**	20,000,000
Proceeds from other loans		**—**	15,000,000
Proceeds from loans from shareholders		**923,000**	—
Proceeds from issurance of shares by placing and public offer		**99,018,000**	—
Listing expenses		**(15,039,976)**	—
Dividend paid		**(4,469,495)**	(6,184,112)
Net cash generated from financing activities		**34,028,849**	36,925,453
Net increase in cash and cash equivalents		**52,465,988**	7,106,565
Cash and cash equivalents at 1 January		**40,357,807**	33,251,242
Cash and cash equivalents at 31 December	25	**92,823,795**	40,357,807

The notes on pages 37 to 82 form part of these financial statements.

(Expressed in Hong Kong dollars)

1. Reorganisation

The Company was incorporated in the Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") completed on 22 November 2004 to rationalise the structure of the Group in preparation for the public listing of its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company becomes the holding company of the subsidiaries now comprising the Group. The Company's shares were listed on GEM on 9 December 2004.

Details of the Reorganisation are set out in the prospectus dated 30 November 2004 issued by the Company and the details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 18 on the financial statements.

2. Basis of presentation

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 22 November 2004. Accordingly, the consolidated results of the Group for the years ended 31 December 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 January 2003 or since their respective dates of incorporation, whichever is a shorter period as if the current Group structure had been in existence throughout the two years presented. The consolidated balance sheet at 31 December 2003 is a combination of the balance sheets of the Company and its subsidiaries at 31 December 2003. All material intra-group transactions and balances have been eliminated on combination. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

3. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements of the Listing Rules of the GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(a) Statement of compliance *(Continued)*

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

(c) Subsidiaries

A subsidiary, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated income statement.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(c) Subsidiaries *(Continued)*

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses *(see note 3(i))*, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venture, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise.

(e) Investments in securities

The Group's policies for investments in securities other than investments in jointly controlled entities are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the consolidated balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the consolidated income statement, such provisions being determined for each investment individually.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(e) Investments in securities *(Continued)*

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short-term fluctuations in price.

(iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the consolidated income statement as they arise.

(f) Fixed assets and depreciation

(i) Valuation

Fixed assets are stated in the consolidated balance sheet at cost less accumulated depreciation *(see note 3(f)(iii))* and impairment losses *(see note 3(i))*. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition and location for its intended use.

(ii) Subsequent expenditure

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(f) Fixed assets and depreciation *(Continued)*

(iii) Depreciation

Depreciation is calculated to write-off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Land use rights	50 years
Buildings	20 years
Plant and machinery	3 — 10 years
Motor vehicles	10 years
Office, computer and other equipment	5 years

(iv) Disposals

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the differences between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

(g) Construction in progress

Construction in progress represents fixed assets under construction and equipment pending installation, and is stated at cost less impairment losses *(see note 3(i))*. Cost comprises direct costs of construction as well as interest charges during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the People's Republic of China (the "PRC").

(h) Intangible assets

(i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation *(see note 3(h)(iv))* and impairment losses *(see note 3(i))*. Other development expenditure is recognised as an expense in the period in which it is incurred.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(h) Intangible assets *(Continued)*

(ii) Other intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortisation *(see note 3(h)(iv))* and impairment losses *(see note 3(i))*.

(iii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(iv) Amortisation of capitalised development cost is charged to the consolidated income statement over the estimated life cycle of the relevant products. Amortisation of other intangible assets is charged to the consolidated income statement on a straight-line basis over their estimated useful lives as follows:

Acquired technology	5 years
Patent	10 years

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets, construction in progress, investments in subsidiaries, investments in jointly controlled entities, and intangible assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

(j) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the consolidated balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 3(f)(iii). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(i). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 3(o).

Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(k) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and other costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(m) Income tax *(Continued)*

(iii) *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(m) Income tax *(Continued)*

(iii) *(Continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue in respect of sale of goods is recognised when the title to the goods and the related risks and rewards of ownership are passed to customers, the Group will not execute the right of supervision and control over the goods, either the proceeds are received or entitlement of proceeds is evidenced, and the cost of sale of goods can be estimated reliably. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Subsidy income

Subsidy income is recognised upon the granting of subsidy by the relevant authorities.

(iii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(iv) Rental income under operating leases

Rental income receivable under operating leases is recognised in the consolidated income statement in equal instalments over the accounting periods covered by the lease term.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

(iii) Employees of the subsidiaries established in the PRC participate in defined contribution retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the plans at fixed rates of the relevant employees' salary costs.

The Group's contributions to these plans are charged to the consolidated income statement when incurred. The Group has no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(vi) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated into foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

The results of enterprises outside Hong Kong are translated into Hong Kong dollars at the average rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(Expressed in Hong Kong dollars)

3. Principal accounting policies *(Continued)*

(r) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisiton, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(Expressed in Hong Kong dollars)

4. Turnover

The principal activities of the Group are production and sales of automotive safety products in the PRC.

Turnover represents the sales value of automotive safety products to customers net of sales tax and value added tax.

Turnover recognised during the year may be analysed as follows:

	2004	2003
	$	*$*
Sales of mechanical airbag systems	**114,857,854**	138,346,628
Sales of electronic airbag systems	**50,856,805**	48,745,260
Sales of other automotive safety products	**16,570,529**	2,639,299
	182,285,188	189,731,187

The Group's turnover and operating profit are almost entirely derived from the production and sales of automotive safety products in the PRC. Accordingly, no analysis by geographical and business segments has been presented.

5. Other revenue

	2004	2003
	$	*$*
Experiment fee	**253,987**	267,311
Interest income	**240,522**	141,525
Rental income	**95,755**	95,392
Bonus	**94,340**	—
Subsidy income	**—**	1,498,113
Sundry income	**46,854**	21,932
	731,458	2,024,273

(Expressed in Hong Kong dollars)

6. Other net (loss)/income

	2004	2003
	$	$
Loss on disposal of fixed assets	**(131,177)**	—
Exchange (loss)/gain	**(66,534)**	11,817
Others	**—**	1,102
	(197,711)	12,919

7. Research and development expenses

	2004	2003
	$	$
Research and development costs incurred during the year	**5,881,645**	7,058,993
Less: Development costs capitalised during the year *(note 21)*	**(2,770,577)**	(1,326,712)
	3,111,068	5,732,281
Less: Government subsidies	**—**	(5,253,773)
Amounts charged to consolidated income statement	**3,111,068**	478,508

Government subsidies were received by a subsidiary in the PRC from the municipal government authorities during the year ended 31 December 2003 in support of research and development activities carried out by the subsidiary.

8. Staff costs

	2004	2003
	$	$
Salaries, wages and bonuses	**4,101,528**	3,513,195
Staff welfare	**262,486**	531,014
Contributions to retirement benefit schemes	**217,251**	134,494
	4,581,265	4,178,703
Average number of employees during the year	**226**	168

(Expressed in Hong Kong dollars)

9. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2004	2003
	$	*$*
(a) Finance costs:		
Interest expense on bank advances wholly repayable within five years	**2,802,214**	3,176,174
Discounting charges on discounted bills	**151,573**	812,731
Other borrowing costs	**549,710**	348,971
Total borrowing costs	**3,503,497**	4,337,876

Other borrowing costs represent interest expense on shareholders' loans, convertible bonds and other loans, as disclosed in notes 28, 29 and 30 respectively.

	2004	2003
	$	*$*
(b) Other items:		
Cost of inventories	**111,203,538**	139,742,333
Depreciation	**3,836,671**	3,094,636
Auditors' remuneration	**826,132**	2,830
Provision for stock obsolescence	**—**	346,081
Provision for doubtful debts (written back)/made	**(166,489)**	81,077
Amortisation of intangible assets		
— Acquired technology	**795,399**	729,116
— Development costs	**578,984**	1,368,727
— Patent	**2,044**	1,523

(Expressed in Hong Kong dollars)

10. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2004	2003
	$	$
Current tax		
PRC income tax for the year	—	8,919,598
Under-provision in respect of prior year	47,684	—
	47,684	8,919,598
Deferred tax		
Origination and reversal of temporary differences *(note 22(b))*	—	1,026,381
Total income tax expense	47,684	9,945,979

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year.

Pursuant to the income tax rules and regulations of the PRC, Jinheng Automotive Safety System Co., Ltd. ("Jinheng Automotive"), a subsidiary of the Company, was liable to enterprise income tax at a rate of 33% for the year ended 31 December 2003. Subsequent to the transformation into a wholly owned foreign enterprise on 23 December 2003, Jinheng Automotive is entitled to a tax concession period in which it is fully exempted from PRC income tax for 2 year starting from its first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years.

Harbin Hafei Jinheng Automotive Safety System Co., Ltd. ("Hafei Jinheng"), a subsidiary of the Company, is not subject to the PRC income tax during the year as it has not commenced business as at 31 December 2004.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(Expressed in Hong Kong dollars)

10. Income tax in the consolidated income statement *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2004	2003
	$	*$*
Profit before tax	**51,810,613**	37,413,471
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**17,641,390**	12,346,445
Tax effect of non-deductible expenses	**623,002**	163,625
Tax effect of tax credit	**—**	(1,260,234)
Tax effect of non-taxable revenue	**(8,933)**	(2,228,122)
Tax effect of tax concession period	**(18,384,928)**	—
Temporary differences not recognised	**129,469**	924,265
Under-provision in respect of prior year	**47,684**	—
Tax expense	**47,684**	9,945,979

(Expressed in Hong Kong dollars)

11. Directors' remuneration

Details of directors' remuneration are as follows:

Year ended 31 December 2004

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Bonuses	Total
	$	$	$	$	$
Executive directors					
Mr. Li Feng	—	58,334	—	—	58,334
Mr. Xing Zhanwu	—	154,875	4,506	—	159,381
Mr. Zhao Qingjie	—	41,667	—	—	41,667
Mr. Yang Donglin	—	82,925	4,506	—	87,431
Mr. Foo Tin Chung, Victor	—	291,200	6,160	—	297,360
Non-executive directors					
Mr. Li Hong	—	8,334	—	—	8,334
Mr. Zeng Qingdong	—	8,334	—	—	8,334
Independent non-executive directors					
Mr. Chan Wai Dune	—	12,500	—	—	12,500
Dr. Zhong Zhihua	—	6,667	—	—	6,667
Mr. Zhu Tong	—	6,667	—	—	6,667
Total	—	671,503	15,172	—	686,675

(Expressed in Hong Kong dollars)

11. Directors' remuneration *(Continued)*

Year ended 31 December 2003

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Bonuses	Total
	$	*$*	*$*	*$*	*$*
Executive directors					
Mr. Li Feng	—	—	—	—	—
Mr. Xing Zhanwu	—	122,642	3,374	12,897	138,913
Mr. Zhao Qingjie	—	—	—	—	—
Mr. Yang Donglin	—	78,113	3,373	31,764	113,250
Mr. Foo Tin Chung, Victor	—	—	—	—	—
Non-executive directors					
Mr. Li Hong	—	—	—	—	—
Mr. Zeng Qingdong	—	—	—	—	—
Independent non-executive directors					
Mr. Chan Wai Dune	—	—	—	—	—
Dr. Zhong Zhihua	—	—	—	—	—
Mr. Zhu Tong	—	—	—	—	—
Total	—	200,755	6,747	44,661	252,163

(Expressed in Hong Kong dollars)

11. Directors' remuneration *(Continued)*

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

	2004 Number of directors	2003 Number of directors
$Nil to $1,000,000	**10**	10
	10	10

There were no amounts paid during the year to the directors in connection with their retirement from employment with the Group, or inducement to join. There was no any arrangement under which a director waived or agreed to waive any remuneration during the year.

12. Senior management remuneration

The five highest paid individuals of the Group include 3 (2003: 2) directors of the Group during the year whose remuneration is reflected in the analysis presented above. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

	2004 **$**	2003 $
Basic salaries, allowances and other benefits	**181,133**	234,969
Contributions to retirement benefit schemes	**9,273**	6,317
Bonuses	**—**	119,297
	190,406	360,583
Number of senior management	**2**	3

The above individuals' emoluments are within the band of $Nil to $1,000,000.

There were no amounts paid during the year to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

(Expressed in Hong Kong dollars)

13. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a loss of $2,259,047 (2003: $Nil) which has been dealt with in the financial statements of the Company.

14. Dividends

(a) Dividends attributable to the year

	2004	2003
	$	*$*
Final dividend proposed after the balance sheet date of 5.5 HK cents per share	**20,955,000**	—

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

The dividend per share and the number of share ranking for dividend for the year ended 31 December 2003 are not presented as such information is not meaningful having regard to the consolidated financial statements.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2004	2003
	$	*$*
Final dividend in respect of the previous financial year, approved and paid during the year	**—**	10,720,625

The dividend per share and the number of shares ranking for dividend are not presented above as such information is not meaningful having regard to the consolidated financial statements.

15. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2004 is based on the profit attributable to shareholders of $51,802,162 and on the weighted average of 304,882,192 ordinary shares in issue during the year. The calculation of basic earnings per share for the year ended 31 December 2003 was based on the profit attributable to shareholders of $27,467,492 and on the 300,000,000 shares of the Company in issue as at the date of the Prospectus, as if the shares were outstanding throughout 2003.

(Expressed in Hong Kong dollars)

15. Earnings per share *(Continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of $51,802,162 and the weighted average number of ordinary shares of 305,655,206 shares after adjusting for the effect of all dilutive potential ordinary shares. There were no potential dilutive ordinary shares in issue during the year ended 31 December 2003.

(c) Reconciliation

	2004 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**304,882,192**
Deemed issue of ordinary shares for no consideration	**773,014**
Weighted average number of ordinary shares used in calculating diluted earnings per share	**305,655,206**

(Expressed in Hong Kong dollars)

16. Fixed assets

The Group

	Leasehold land and buildings $	Machinery and equipment $	Motor vehicles $	Office equipment $	Total $
Cost:					
At 1 January 2004	13,913,067	14,953,439	2,873,094	6,654,704	38,394,304
Additions	—	9,877,413	310,250	1,930,170	12,117,833
Disposals	—	—	(146,226)	—	(146,226)
At 31 December 2004	13,913,067	24,830,852	3,037,118	8,584,874	50,365,911
Accumulated depreciation:					
At 1 January 2004	924,279	2,045,988	399,642	2,225,241	5,595,150
Charge for the year	551,094	1,713,459	284,252	1,287,866	3,836,671
Written back on disposal	—	—	(15,049)	—	(15,049)
At 31 December 2004	1,475,373	3,759,447	668,845	3,513,107	9,416,772
Carrying amount:					
At 31 December 2004	12,437,694	21,071,405	2,368,273	5,071,767	40,949,139
At 31 December 2003	12,988,788	12,907,451	2,473,452	4,429,463	32,799,154

All the Group's leasehold land and buildings are held by one of the subsidiaries in the PRC. The subsidiary was formally granted the rights to use the land in the Economic & Technical Development Zone, Jinzhou, Liaoning Province, by the relevant PRC authorities for a period of 50 years, which expire in 2049.

Leasehold land and buildings are mortgaged to banks for certain banking facilities granted to the Group as disclosed in note 27.

(Expressed in Hong Kong dollars)

16. Fixed assets *(Continued)*

The Group leases out a motor vehicle under an operating lease. The lease runs for an initial period of three years. The lease does not include any contingent rentals. The gross carrying amounts of motor vehicle held for use in the operating lease were $390,253 and $350,042, and the related accumulated depreciation charges were $60,690 and $100,901 as at 31 December 2003 and 2004 respectively.

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2004	2003
	$	*$*
Within 1 year	**38,522**	66,038
After 1 year but within 5 years	**—**	33,019
	38,522	99,057

A surplus of approximately $600,000 arising as a result of an independent valuation of the Group's property as at 31 August 2004 carried out by LCH (Asia-Pacific) Surveyors Limited have not been incorporated in the Group's consolidated financial statements for the year ended 31 December 2004. It is the Group's policy to state its fixed assets at cost less accumulated depreciation and impairment loss in accordance with SSAP 17 "Property, plant and equipment" issued by the HKICPA. If such revaluation surplus was included in the Group's consolidated financial statements, additional annual depreciation charges of approximately $26,000 would be incurred.

17. Construction in progress

The Group

	2004	2003
	$	*$*
Cost:		
At 1 January	**1,218,296**	875,636
Additions	**8,981,689**	3,002,493
Transfer to fixed assets	**—**	(2,659,833)
At 31 December	**10,199,985**	1,218,296

(Expressed in Hong Kong dollars)

18. Investments in subsidiaries

The Company

	2004
	$
Unlisted shares, at cost	**100**

Details of the subsidiaries as at 31 December 2004 are as follows:

Name of company	**Place of incorporation**	**Issued and fully paid share capital/ registered capital**	**Attributable equity interest Direct**	**Attributable equity interest Indirect**	**Principal activities**
			%	%	
Jinheng (BVI) Limited ("Jinheng (BVI)")	British Virgin Islands	$100	100	—	Investment holding
Handfull Investments Limited ("Handfull Investments")	Hong Kong	$70	—	100	Investment holding
Jinzhou Jinheng Automotive Safety System Co., Limited	The PRC	$31,500,000	—	100	Production and sales of automotive safety products
Harbin Hafei Jinheng Automotive Safety System Co., Limited ("Hafei Jinheng")	The PRC	RMB13,000,000	—	90	Business operation not yet commenced

Note: All subsidiaries incorporated in the PRC are wholly foreign-owned enterprises, except for Hafei Jinheng, which is a Sino-foreign equity joint venture.

(Expressed in Hong Kong dollars)

19. Interest in jointly controlled entities

	2004	2003
	$	*$*
Share of net assets	**14,711,882**	15,406,804

Details of the Group's interest in the jointly controlled entities are as follows:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of registered and paid up capital	Group's effective interest	held by the Company	held by subsidiary	Principal activity
Shanxi Jinheng Automotive Spare Parts Co., Ltd. ("Jinheng Parts")	Incorporated	PRC	RMB20.04 million	35%	—	35%	Manufacture and sale of automotive safety parts
Shenyang Jinbei Jinbeng Automotive Safety System Co., Limited ("Jinbei Jinheng")	Incorporated	PRC	RMB20 million	50%	—	50%	Manufacture and sale of automotive safety parts

20. Other non-current financial assets

	2004	2003
	$	*$*
Investment securities		
Unlisted equity securities in the PRC	**4,716,981**	4,716,981
Other securities		
Unlisted equity securities in the PRC	**47,170**	47,170
	4,764,151	4,764,151

(Expressed in Hong Kong dollars)

21. Intangible assets

	Acquired technology	Development costs	Patent	Total
	$	**$**	**$**	**$**
Cost:				
At 1 January 2004	3,378,223	4,065,552	17,307	7,461,082
Additions	371,482	2,770,577	1,558	3,143,617
At 31 December 2004	3,749,705	6,836,129	18,865	10,604,699
Accumulated amortisation:				
At 1 January 2004	668,330	1,398,043	1,523	2,067,896
Charge for the year	795,399	578,984	2,044	1,376,427
At 31 December 2004	1,463,729	1,977,027	3,567	3,444,323
Carrying amount:				
At 31 December 2004	2,285,976	4,859,102	15,298	7,160,376
At 31 December 2003	2,709,893	2,667,509	15,784	5,393,186

Acquired technology represents a non-refundable licence fee paid to Key Safety Systems, Inc. ("KSS") in accordance with the License and Technical Assistance Agreement signed in November 2000, pursuant to which KSS agreed to supply technical services and granted a license to Jinheng Automotive for use of the know-how relating to the processes, methods, techniques, constructions, equipment specifications, materials and product specifications for the production of airbags in the PRC. Acquired technology is amortised over the directors' estimated useful life of 5 years from December 2002, when the commercial production commenced.

Patent represents the registration fee of technologies developed by the Group. The directors consider that the estimated useful life of the patent to be 10 years.

(Expressed in Hong Kong dollars)

22. Income tax in the consolidated balance sheet

(a) Current taxation in the consolidated balance sheet represents:

The Group

	2004	2003
	$	*$*
Provision for PRC income tax for the year	—	8,919,598
PRC income tax paid	—	(4,650,291)
	—	4,269,307

(b) Deferred tax assets recognised

The Group

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Provisions	**Others**	**Total**
	$	***$***	***$***
At 1 January 2003	101,070	925,311	1,026,381
Charged to consolidated income statement *(note 10(a))*	(101,070)	(925,311)	(1,026,381)
At 31 December 2003 and 2004	—	—	—

Others represent temporary differences arising from different expense recognition criteria between accounting and tax basis.

(c) There were no significant unrecognised deferred tax assets or liabilities at 31 December 2003 and 2004.

(Expressed in Hong Kong dollars)

23. Inventories

	The Group	
	2004	2003
	$	$
Raw materials	**26,325,687**	26,734,366
Work-in-progress	**2,732,073**	3,268,622
Finished goods	**10,097,645**	16,344,779
Spare parts and consumables	**29,587**	23,724
	39,184,992	46,371,491
Provision for stock obsolescence included above	**346,081**	346,081
Inventories stated at net realisable value	**552,896**	1,077,280

24. Trade receivables, prepayments and other receivables

Trade receivables, prepayments and other receivables comprise:

	The Group		The Company
	2004	2003	**2004**
	$	$	**$**
Trade receivables	**30,950,263**	60,606,284	—
Bills receivable	**20,604,717**	14,574,811	—
Amount due from a subsidiary	—	—	**39,125,973**
Prepayments	**11,075,066**	8,451,780	**1,671,252**
Other receivables	**7,277,751**	7,224,713	**4,002,085**
	69,907,797	90,857,588	**44,799,310**

Included in trade receivables are amounts due from related companies of $7,682,452 (2003: $10,496,903) *(see note 36(b))*.

The amount due from a subsidiary is unsecured, non-interest bearing and expected to be recovered within one year.

(Expressed in Hong Kong dollars)

24. Trade receivables, prepayments and other receivables *(Continued)*

An ageing analysis of trade receivables (net of provision for bad and doubtful debts) is as follows:

	The Group	
	2004	2003
	$	$
Current	**12,162,264**	58,412,243
1 to 3 months overdue	**12,085,694**	275,077
More than 3 months overdue but less than 12 months overdue	**6,695,948**	16,981
More than 1 year overdue but less than 2 years overdue	**6,357**	1,901,983
	30,950,263	60,606,284

The Group generally grants credit period with 0 to 90 days from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and credit worthiness, extend the credit period upon customers' request.

25. Cash and cash equivalents

Analysis of the balances of cash and cash equivalents is set out below:

	The Group		The Company
	2004	2003	**2004**
	$	$	**$**
Cash and cash equivalents in the balance sheet and cash flow statement	**92,823,795**	40,357,807	**41,116,146**
Cash and cash equivalents are denominated in:			
— RMB	**38,737,951**	36,856,522	**—**
— HK$	**54,085,844**	3,501,285	**41,116,146**
	92,823,795	40,357,807	**41,116,146**

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(Expressed in Hong Kong dollars)

26. Trade and other payables

Trade and other payables comprise:

	The Group		The Company
	2004	2003	**2004**
	$	$	**$**
Trade payables	**20,000,812**	56,114,335	**—**
Bills payable	**—**	4,716,981	**—**
Amounts due to subsidiaries	**—**	—	**1,881,479**
Other payables	**5,309,417**	6,089,059	**2,315,000**
Receipts in advance	**—**	882,264	**—**
	25,310,229	67,802,639	**4,196,479**

Included in trade payables are amounts due to related companies of $9,017,808 (2003: $24,407,588) *(see note 36(c))*.

Bills payable at 31 December 2003 were secured by bank deposits of $5,578,995.

The amounts due to subsidiaries are unsecured, non-interest bearing and expected to be settled within one year.

An ageing analysis of trade payables is as follows:

	The Group	
	2004	2003
	$	$
Within 3 months	**19,192,393**	56,114,335
Over 3 months but less than 6 months	**808,419**	—
	20,000,812	56,114,335

(Expressed in Hong Kong dollars)

27. Bank loans

The bank loans are repayable as follows:

	The Group	
	2004	2003
	$	$
Within 1 year or on demand	**34,811,321**	23,584,906
After 1 year but within 2 years	**15,188,679**	8,490,566
After 2 years but within 5 years	**26,415,095**	44,339,623
	41,603,774	52,830,189
	76,415,095	76,415,095
Representing:		
Secured bank loans	**26,415,095**	26,415,095
Unsecured bank loans	**50,000,000**	50,000,000
	76,415,095	76,415,095

At 31 December 2004, a bank loan of $26,415,095 (2003: $26,415,095) was secured by mortgages over the Group's leasehold land and buildings with aggregate carrying value of $7,516,455 (2003: $7,821,698).

28. Shareholders' loans

	The Group	
	2004	2003
	$	$
Former shareholders of Jinheng Automotive	**—**	32,550,683

The unsecured loans from former shareholders, mainly representing an amount of $31,500,000 received by the subsidiary in the PRC on behalf of each of the former shareholders of Jinheng Automotive, were non-interest bearing and repayable on demand. The loans have been fully repaid in 2004.

(Expressed in Hong Kong dollars)

29. Convertible bonds

On 27 December 2003, Jinheng (BVI) issued convertible bonds for an aggregate principal amount of $20,000,000 at par to certain independent investors (the "Bonds"). The Bonds bear interest at a rate of 10% per annum on the principal amount of the Bonds from the date of issue until 31 December 2004.

Bondholders have been granted an option to convert the entire principal amount of the Bonds into ordinary shares of Jinheng (BVI), credited as fully paid, at any time during the conversion period from the issue date of the convertible bonds to 31 December 2004.

On 2 April 2004, bondholders converted the entire principal amount of the Bonds into 1,800 ordinary shares of Jinheng (BVI) which have subsequently been swapped into the Company's ordinary shares pursuant to the Reorganisation.

30. Other loans

On 2 December 2003, the Group obtained unsecured loans for an aggregate value of $15,000,000 from certain independent investors for a period of twelve months from the date of drawdown (the "Loans"). The Loans bear interest at a fixed rate of 10% per annum. The Loans have been fully repaid in 2004.

31. Retirement benefits

(a) Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Jinzhou, whereby the Group is required to make contributions to the Schemes at the rate of 24% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

(b) The Group maintains a mandatory provident fund (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employee's contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employee (up to a cap of monthly relevant income of $20,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

(Expressed in Hong Kong dollars)

32. Equity compensation benefits

The Company has two share option schemes which were adopted on 22 November 2004 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company to a maximum of 49,500,000 shares. The share option schemes shall be valid and effective for a period of 10 years ending on 22 November 2014 after which no further options will be granted. The exercise price of options may be determined by the board at its absolute discretion but in any event will not be less than the higher of:

(i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day;

(ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five consecutive business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

The options vest after 12 months from the date of grant and are then exercisable within a period of four years from date of grant.

(a) Movements in share options

	2004	2003
	Number	Number
At 1 January	**—**	—
Issued	**11,400,000**	—
Exercised	**—**	—
At 31 December	**11,400,000**	—
Options vested at 31 December	**—**	—

(Expressed in Hong Kong dollars)

32. Equity compensation benefits *(Continued)*

(b) Terms of unexpired and unexercised share options at the balance sheet date

Date of granted	Market price at the date of grant	Exercise period	Exercise price	2004 Number	2003 Number
22 November 2004	$0.788	9 December 2005 to 9 December 2008	$0.38	**11,400,000**	—

(c) Details of share options granted during the year

Exercise period	Exercise price	2004 Number	2003 Number
9 December 2005 to 9 Decemebr 2008	$0.38	**11,400,000**	—

The consideration paid by each individual for the options granted was $1.

(Expressed in Hong Kong dollars)

33. Share capital

	Note	2004 Number of shares	2004 $	2003 Number of shares	2003 $
Authorised:					
Ordinary shares of $0.1 each	*(a)*	**—**	**—**	10,000	1,000
Ordinary shares of $0.01 each	*(b), (e)*	**10,000,000,000**	**100,000,000**	—	—
		10,000,000,000	**100,000,000**	10,000	1,000
Issued:					
At 1 January	*(c)*	**3**	**—**	30,000,000	28,301,887
Subdivision of shares pursuant to the Reorganisation	*(d)*	**27**	**—**	—	—
Issuance of new shares	*(f)*	**9,970**	**100**	73	70
Capital elimination on consolidation	*(g)*	**(10,000)**	**(100)**	—	—
Issuance of shares	*(g)*	**10,000**	**100**	—	—
Nominal value of share capital of subsidiaries acquired *(note 32)*		**—**	**—**	(30,000,070)	(28,301,957)
Capitalisation issue	*(h)*	**299,990,000**	**2,999,900**	—	—
Shares issued under the placing and public offer	*(i)*	**81,000,000**	**810,000**	—	—
		381,000,000	**3,810,000**	3	—

(a) Authorised share capital of 2003 represents the authorised share capital of Jinheng (BVI).

(b) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with liability on 26 February 2004 with an authorised share capital of $100,000 divided into 10,000,000 shares of $0.01 each of which one subscriber share then issued was subsequently transferred on 11 March 2004, nil paid, to and held by Applaud Group.

(Expressed in Hong Kong dollars)

33. Share capital *(Continued)*

(c) Share capital in the consolidated balance sheet as at 1 January 2003 represents the registered issued share capital of Jinheng Automotive comprising 30,000,000 shares of RMB1 each. Share capital in the Group's consolidated balance sheet as at 31 December 2003 represents the issued capital of Jinheng (BVI) comparing 3 shares of $0.1 each.

(d) Pursuant to the written resolutions of the shareholders of Jinheng (BVI) passed on 27 January 2004, the issued share capital of $0.1 each of the Company was subdivided into 10 shares of $0.01 each.

(e) Pursuant to the written resolutions of the shareholders of the Company passed on 22 November 2004, the authorised share capital of the Company was increased from $100,000 to $100,000,000 by the creation of 9,990,000,000 shares of $0.01 each.

(f) Pursuant to the written resolutions of the shareholders of Jinheng (BVI) passed on 2 April 2004, an aggregate of 1,800 shares of $0.01 each were allotted and issued, credited as fully paid, upon conversion of the Convertible bonds *(see note 29)*. On the same date, 8,170 shares of $0.01 each of Jinheng (BVI) were allotted and issued at par.

(g) Pursuant to the written resolutions of the shareholders of the Company passed on 22 November 2004, as part of the Reorganisation and as consideration for the acquisition of the entire share capital of Jinheng (BVI), the Company issued 10,000 shares of $0.01 each, credited as fully paid shares at par.

(h) Pursuant to the written resolutions of the shareholders of the Company passed on 22 November 2004, an amount of $2,999,900 standing to the credit of the Company's share premium account was applied in paying up in full at par 299,990,000 shares of $0.01 each for allotment and issue to persons whose names appeared on the register of members of the Company at the close of business on 22 November 2004 in the same portion to their then existing shareholders of the Company.

(i) On 9 December 2004, an aggregate of 81,000,000 shares of $0.01 each were issued and offered for subscription at a price of $1.18 per share upon the listing of the Company's shares on the GEM of the Stock Exchange. The Group raised approximately $80,540,024 (including interest income) net of related expenses from the share offer.

(Expressed in Hong Kong dollars)

34. Reserves

The Group

	Share premium	Merger reserve	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	$	*$*	*$*	*$*	*$*	*$*
At 1 January 2003	—	—	1,217,472	608,736	8,118,958	9,945,166
Profit for the year	—	—	—	—	27,467,492	27,467,492
Appropriations to statutory reserves	—	—	1,852,906	926,452	(2,779,358)	—
Nominal value of share capital of subsidiaries acquired *(note 33)*	—	28,301,957	—	—	—	28,301,957
Transfer to retained profits	—	(11,960,703)	—	—	11,960,703	—
Dividends approved in respect of prior year *(note 14)*	—	—	—	—	(10,720,625)	(10,720,625)
Appropriations to shareholders	—	—	—	—	(34,047,170)	(34,047,170)
At 31 December 2003	—	16,341,254	3,070,378	1,535,188	—	20,946,820
At 1 January 2004	—	16,341,254	3,070,378	1,535,188	—	20,946,820
Issue of new shares	19,999,982	—	—	—	—	19,999,982
Arising on Reorganisation	(19,999,982)	19,999,982	—	—	—	—
Profit for the year	—	—	—	—	51,802,162	51,802,162
Appropriations to statutory reserves	—	—	5,679,071	2,839,535	(8,518,606)	—
Share premium from issuance of shares	94,770,000	—	—	—	—	94,770,000
Issuing costs	(15,039,976)	—	—	—	—	(15,039,976)
Capitalisation issue	438,100	—	—	—	—	438,100
At 31 December 2004	80,168,124	36,341,236	8,749,449	4,374,723	43,283,556	172,917,088

Included in the figure for the retained profits is an amount of $854,156 (2003: $159,234), being the accumulated loss attributable to a jointly controlled entity.

(Expressed in Hong Kong dollars)

34. Reserves *(Continued)*

The Company

	Share premium $	Accumulated losses $	Total $
At 1 January 2004	—	—	—
Loss for the year	—	(2,259,047)	(2,259,047)
Share premium from issuance of shares	94,770,000	—	94,770,000
Issuing costs	(15,039,976)	—	(15,039,976)
Capitalisation issue	438,100	—	438,100
At 31 December 2004	80,168,124	(2,259,047)	77,909,077

(a) Share premium

The application of the share premium account is governed by the Company Law of Cayman Islands.

(b) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of shares of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange therefor. This reserve is distributable.

(c) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

(i) Statutory surplus reserve

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

(Expressed in Hong Kong dollars)

34. Reserves *(Continued)*

(c) PRC statutory reserves *(Continued)*

(i) Statutory surplus reserve *(Continued)*

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

(ii) Statutory public welfare fund

The subsidiaries in the PRC are required to transfer 5% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory public welfare fund. This fund can only be utilised on capital item for the collective benefits of the subsidiaries' employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

(d) Distributable reserves

At 31 December 2003 and 2004, the Company had no reserve available for distribution to shareholders.

(e) Appropriations to shareholders

Appropriations to shareholders represented the de facto dividends to the Former Shareholders of Jinheng Automotive as part of the Reorganisation.

35. Commitments and contingencies

(a) Capital commitments, representing purchase of property, plant and equipment, not provided for in the consolidated financial statements were as follows:

	The Group	
	2004	2003
	$	*$*
Contracted for	**387,300**	1,893,208
Authorised but not contracted for	**10,900,000**	22,997,148
	11,287,300	24,890,356

(Expressed in Hong Kong dollars)

35. Commitments and contingencies *(Continued)*

(b) The total minimum lease payments under a non-cancellable operating lease were payable as follows:

Properties

	The Group		The Company
	2004	2003	**2004**
	$	$	**$**
Within 1 year	**153,321**	—	**112,440**
After 1 year but within 5 years	**229,114**	—	**65,590**
After 5 years	**981,141**	—	**—**
	1,363,576	—	**178,030**

Others

	The Group		The Company
	2004	2003	**2004**
	$	$	**$**
Within 1 year	**8,400**	—	**—**
After 1 year but within 5 years	**28,000**	—	**—**
	36,400	—	**—**

The Group leases a number of properties and office equipment under operating leases for a period of 2 to 30 years. The leases do not include contingent rentals.

(Expressed in Hong Kong dollars)

36. Material related party transactions

Name of party	Relationship
Jinheng Parts	35% owned jointly controlled entity of the Group
Jinbei Jinheng	50% owned jointly controlled entity of the Group
Taiyuan Aero-Instruments Co., Ltd. ("Taiyuan Aero")	40% owner of Jinheng Parts
Hafei Motor Co., Ltd. ("Hafei Motor")	Minority shareholder (10%) of Hafei Jinheng
Jinzhou Halla Electrical Equipment Company Limited ("Jinzhou Halla")	Controlled by former shareholders of Jinheng Automotive
Jinzhou Wonder Auto Suspension System Co., Ltd. ("Jinzhou Wonder Suspension")	Controlled by former shareholders of Jinheng Automotive
Jinzhou Wonder Enterprises (Group) Co., Ltd. ("Jinzhou Wonder")	Controlled by former shareholders of Jinheng Automotive

(Expressed in Hong Kong dollars)

36. Material related party transactions *(Continued)*

(a) Recurring

	The Group	
	2004	2003
	$	$
Purchases of raw materials from:		
— Jinheng Parts	**42,488,754**	27,586,914
— Taiyuan Aero	**2,364,743**	10,007,941
Sales of airbag systems to:		
— Hafei Motor	**25,584,815**	35,022,375

The directors of the Company are of the opinion that the purchases of raw materials from and sales of airbag systems to the above related parties were conducted in the ordinary course of business.

(b) Amounts due from related companies

	The Group	
	2004	2003
	$	$
Jinbei Jinheng	**3,475,382**	—
Hafei Motor	**4,207,070**	10,496,903
	7,682,452	10,496,903

The amounts due from related companies are trade-related, unsecured, interest free and are expected to be repaid within one year. These amounts are included in "Trade receivables, prepayments and other receivables" in the consolidated balance sheet *(see note 24)*.

(Expressed in Hong Kong dollars)

36. Material related party transactions *(Continued)*

(c) Amounts due to related companies

	The Group	
	2004	2003
	$	$
Jinheng Parts	**9,017,808**	19,690,607
Taiyuan Aero	**—**	4,716,981
	9,017,808	24,407,588

The amounts due to related companies are trade-related, unsecured, interest free and are expected to be repaid within one year. These amounts are included in "Trade and other payables" in the consolidated balance sheet *(see note 26)*.

(d) The Group obtained unsecured loans from the then shareholders of Jinheng Automotive, and the shareholders of Jinheng (BVI) in 2003. Details of these loans are disclosed in notes 28 and 30.

(e) In addition to the above, guarantees were given by certain related parties against bank facilities granted to the Group at 31 December 2003. Details of these guarantees are set out as follows:

	The Group	
	2004	2003
	$	$
Jinzhou Halla	**—**	26,415,095
Jinzhou Wonder Suspension	**—**	4,716,981
Jinzhou Wonder	**—**	18,867,924
	—	50,000,000

The above guarantees were released on 9 December 2004.

(Expressed in Hong Kong dollars)

37. Major non-cash transactions

(a) During the year, a customer transferred 10 motors to the Group with an aggregate amount of approximately $875,000, in order to settle an equivalent amount due from this customer.

(b) Pursuant to the supplementary investment agreement in connection with the establishment of Hafei Jinheng, a minority shareholder, Hafei Motor injected capital of RMB1,300,000 (equivalent to $1,200,000) to Hafei Jinheng, which was entirely satisfied by a transfer of the operating rights of production premises for a period of 30 years.

(Expressed in Hong Kong dollars)

	2002	2003	2004
	$	*$*	*$*
Assets and liabilities			
Non-current assets	34,301,709	59,581,591	**77,785,533**
Net current assets	3,945,344	15,421,833	**141,732,511**
Total assets less current liabilities	38,247,053	75,003,424	**219,518,044**
Minority interests	—	(1,226,415)	**(1,187,182)**
Non-current liabilities	—	(52,830,189)	**(41,603,774)**
	38,247,053	20,946,820	**176,727,088**
Share capital	28,301,887	—	**3,810,000**
Reserves	9,945,166	20,946,820	**172,917,088**
	38,247,053	20,946,820	**176,727,088**
Operating results			
Turnover	93,161,961	189,731,187	**182,285,188**
Profit from operations	12,202,033	41,910,581	**56,009,032**
Finance costs	(2,253,144)	(4,337,876)	**(3,503,497)**
Share of losses of jointly controlled entities	—	(159,234)	**(694,922)**
Profit from ordinary activities before taxation	9,948,889	37,413,471	**51,810,613**
Income tax	(2,032,825)	(9,945,979)	**(47,684)**
Profit from ordinary activities after taxation	7,916,064	27,467,492	**51,762,929**
Minority interests	—	—	**39,233**
Profits attributable to shareholders	7,916,064	27,467,492	**51,802,162**
Earnings per share			
Basic	2.64 cents	9.16 cents	**16.99 cents**
Diluted	N/A	N/A	**16.95 cents**

(Expressed in Hong Kong dollars)

Note:

The Company was incorporated in the Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company became the holding company of the Group on 22 November 2004 through the Reorganisation.

The Group resulting from the Reorganisation is regarded as a continuing group and has been accounted for on the basis of merger accounting. Accordingly, the consolidated financial statements have been prepared on the basis that the Company has been treated as the holding company of the Group since 1 January 2002, rather than from 22 November 2004. Accordingly, the consolidated results of the Group for the three years ended 31 December 2004 have been prepared as if the Group structure immediately after the Reorganisation had been in existence since 1 January 2002. This financial summary includes the consolidated results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheets at 31 December 2002, 2003 and 2004 are the combination of the balance sheets of the Company and its subsidiaries at 31 December 2002, 2003 and 2004. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.